

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL OF GAMAGARA MUNICIPALITY ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF GAMAGARA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Gamagara local municipality which comprise the appropriation statement, the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Statements of Generally Recognised Accounting Practice and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Gamagara municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Property plant and equipment

8. The existence and completeness of property plant and equipment as disclosed in note 11 to the annual financial statements amounting to R160 311 462 could not be confirmed due to the following:
 - 8.1 Assets were identified that were not appropriately barcoded and thus could not be traced to the asset register satisfactorily. Similarly assets selected from the asset register could not be physically verified. This placed a limitation on the audit work I needed to perform.

Unauthorised expenditure

9. The municipality incurred unauthorised expenditure amounting to R722 751, which was not disclosed in the financial statements.

Irregular expenditure

10. The municipality incurred irregular expenditure amounting to R470 145, which was not disclosed in the financial statements.

Employee Benefits

11. The municipality provides retirement benefits for its officials and councilors as per the accounting policy however the municipality did not accrue for the expected costs of these benefits in accordance with the South African Statement of Generally Accepted Accounting Practice, IAS 19 *Employee Benefits*. In terms of IAS 19, all post-employment benefit plans are defined as benefit plans and these plans may be funded, partially funded or unfunded. The municipality should account for the obligation using the Projected Credit Unit Method to measure its obligations and costs. In the absence of an actuarial valuation or any amounts disclosed, I could not perform alternative audit procedures to confirm the obligations, current service costs, interest costs and the accumulated actuarial gains/losses.

Basis of qualified opinion

12. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Gamagara municipality as at 30 June 2009 and its financial performance and cash flows for the year then ended have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 to the financial statements and in the manner required by the MFMA.

Emphasis of matter

I draw attention to the following matter on which I do not express a qualified opinion.

Restatement of prior year figures

13. As disclosed in the financial statements, the corresponding figures for the 2007-08 financial year have been restated as a result of a change in accounting policy during the 2008-09 financial year in the financial statements of the Gamagara municipality at, and for the year ended, 30 June 2008.

Other matters

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

14. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with its legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

15. The municipality could not provide any proof to confirm that the accounting officer informed the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services, as required by section 64(3) of the MFMA.
16. The municipality did not fully maintain its official website. Although the municipality had its own website, they did not upload current information onto the website for

community participation, advertisement, sharing of information and to comply with access to information rules as required by section 75 of the MFMA.

17. The accounting officer did not inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of irregular and unauthorised expenditure incurred by the municipality as required by section 32(4)(a) of the MFMA.
18. The municipality did not comply with section 65(2)(e) of the MFMA by paying its creditors within 30 days of receipt of the relevant invoice or statement.

Municipal Systems Act, 2000 (Act No. 32 of 2000)

19. The disclosure of conflict of interests was not adequately documented as per schedule 1(S5) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
20. There were no signed performance agreements for the municipal manager and the chief financial officer for the financial year under review as required by section 57(1)(b) of the MSA.

Governance framework

21. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

22. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

| Par. no. | Basis for qualified opinion | CE | RA | CA | IC | M |
|-----------------|------------------------------------|-----------|-----------|-----------|-----------|----------|
| 8 | Property plant and equipment | 6 | 1,2 | 4,5 | 1 | 1,2 |
| 9 | Unauthorised expenditure | 5,6 | 1 | 4,5 | 1 | 1,2 |
| 10 | Irregular expenditure | 5,6 | 1 | 4,5 | 1 | 1,2 |
| 11 | Employee Benefits | 5,6,7 | 1 | 4,5 | 1 | 1,2 |

23. Include overall reflections/conclusion on the governance framework based on internal control deficiencies, as and where applicable.

An overall improvement had been made from the prior year. However, attention is required with regard to the monitoring and supervision of internal controls to ensure that they are operating effectively and efficiently. Management should also identify risks on an ongoing basis that may affect reliable financial reporting and measures should be implemented to address those risks appropriately.

| Legend | |
|---|---|
| CE = Control environment | |
| The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting. | 1 |
| Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting. | 2 |
| Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel. | 3 |
| Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting. | 4 |
| The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control. | 5 |
| Management's philosophy and operating style do not promote effective control over financial reporting. | 6 |
| The entity does not have individuals competent in financial reporting and related matters. | 7 |
| RA = Risk assessment | |
| Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting. | 1 |
| The entity does not identify risks to the achievement of financial reporting objectives. | 2 |
| The entity does not analyse the likelihood and impact of the risks identified. | 3 |
| The entity does not determine a risk strategy/action plan to manage identified risks. | 4 |
| The potential for material misstatement due to fraud is not considered. | 5 |
| CA = Control activities | |
| There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation. | 1 |
| General information technology controls have not been designed to maintain the integrity of the information system and the security of the data. | 2 |
| Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed. | 3 |
| Actions are not taken to address risks to the achievement of financial reporting objectives. | 4 |
| Control activities are not selected and developed to mitigate risks over financial reporting. | 5 |
| Policies and procedures related to financial reporting are not established and communicated. | 6 |

| | |
|--|---|
| Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system. | 7 |
| IC = Information and communication | |
| Pertinent information is not identified and captured in a form and time frame to support financial reporting. | 1 |
| Information required to implement internal control is not available to personnel to enable internal control responsibilities. | 2 |
| Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel. | 3 |
| M = Monitoring | |
| Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting. | 1 |
| Neither reviews by internal audit or the audit committee nor self -assessments are evident. | 2 |
| Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken. | 3 |

Key governance responsibilities

24. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

| No. | Matter | Y | N |
|---|---|---|---|
| Clear trail of supporting documentation that is easily available and provided in a timely manner | | | |
| 1. | No significant difficulties were experienced during the audit concerning delays or the availability of requested information. | x | |
| Quality of financial statements and related management information | | | |
| 2. | The financial statements were not subject to any material amendments resulting from the audit. | | x |
| 3. | The annual report was submitted for consideration prior to the tabling of the auditor's report. | | x |
| Timeliness of financial statements and management information | | | |
| 4. | The annual financial statements were submitted for auditing as per the legislated deadlines. | x | |
| Availability of key officials during audit | | | |
| 5. | Key officials were available throughout the audit process. | x | |
| Development and compliance with risk management, effective internal control and governance practices | | | |
| 6. | Audit committee | | |

| No. | Matter | Y | N |
|--|---|-----|---|
| | <ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. | x | |
| | <ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. | x | |
| | <ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. | | x |
| 7. | Internal audit | | |
| | <ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. | x | |
| | <ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. | x | |
| | <ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. | | x |
| 8. | There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management. | | x |
| 9. | There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations. | | x |
| 10. | The information systems were appropriate to facilitate the preparation of the financial statements. | | x |
| 11. | A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA. | x | |
| 12. | Delegations of responsibility are in place as set out in section 79 of the MFMA. | x | |
| Follow-up of audit findings | | | |
| 13. | The prior year audit findings have been substantially addressed. | | x |
| 14. | SCOPA resolutions have been substantially implemented. | n/a | |
| Issues relating to the reporting of performance information | | | |
| 15. | The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete. | | x |
| 16. | Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information. | | x |
| 17. | A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68 of the MFMA. | | x |
| 18. | There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance. | x | |

- 24.1 The submitted financial statements were also not reviewed against the GRAP guidelines to ensure compliance with the disclosure requirements. As a result the financial statements were subjected to material amendments resulting from the audit. The accounting officer should ensure that a proper review is performed on the financial statements.
- 24.2 An annual report was not submitted for consideration prior to the tabling of the auditors report. The accounting officer should ensure that an annual report is prepared in accordance with the MFMA.
- 24.3 Management should liaise with their district municipality to assist with these functions as shared functions are allowed by the MFMA. Internal audit and audit committee functions are imperative to ensure the proper functioning of internal control.
- 24.4 Inadequate accounting and internal control policies existed at the municipality resulting in various cases of non-compliance to legislation and accounting guidelines.
- 24.5 The implementation of audit recommendations requires improved monitoring and supervision by management.
- 24.6 Detailed standard operating procedures setting out the roles and responsibilities of all levels of staff involved in the collection and collation of performance information, from source document to reporting, has not been prepared and communicated throughout the entire municipality. This is indicative of a situation where adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information and adequate mechanisms were not established to monitor and review the performance management system.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

25. I was engaged to review the performance information.

The accounting officer's responsibility for the performance information

26. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

27. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.
28. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
29. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Findings of performance information

Non-compliance with regulatory requirements

No reporting of performance information

30. The Gamagara Municipality did not submit performance information for audit purpose as required in terms of section 46 of the MSA, and section 121(3)(c) of the MFMA.

APPRECIATION

31. The assistance rendered by the staff of the Gamagara municipality during the audit is sincerely appreciated.

Auditor-General

Kimberley

30 November 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence